
B. The Theoretical Cornerstone Of Benchmarks Is Flawed - Not All Cable Systems Earned Profits At Monopolistic Levels

The Commission focused on reducing rates to levels that would have presumably existed had systems actually been subject to effective competition³⁹. These excess profits would typically be characterized as "monopolistic profits."

The problem arises that the level of profitability is not uniform throughout the cable industry. Many smaller operators with higher costs may charge more for service, but not proportionately more (i.e., an operator with 50 percent higher operating costs will not be able to charge rates which are 50 percent higher than other operators). In turn, these operators earn lower profits.

The Commission has quantified the average premium charged by operators not subject to effective competition to be 10 percent⁴⁰. The Commission assumes that this percentage as applied to smaller rural systems was entirely attributable to earning excess profits. It has not acknowledged that this rate differential might be attributable to legitimately higher operating and capital costs associated with providing cable services by smaller operators to more rural areas.

³⁹May 3, 1993 *Report and Order*, ¶ 187.

⁴⁰May 3, 1993 *Order* at ¶ 217.

Therefore, the impact of rate rollbacks to benchmarks or by 10 percent⁴¹ can cause these systems to reduce revenues below their minimum cost levels, effectively threatening their continued existence.

C. **Benchmark Differentials Between Systems Of Varying Sizes Are Inconsistent With Prior Commission Studies**

Although the Commission factored system size in terms of numbers of subscribers into its benchmark rate determinations⁴², the differentials between systems of varying sizes are not consistent with the rate differentials identified in the Commission's Competition Report.

The Commission's Competition Report measured rates on a per channel basis of systems of 1 - 1,000; 1,001 - 3,500; 3,501 - 10,000; 10,001 - 50,000; and more than 50,000 subscribers over the period 1984 through 1989. It found, for example, that in 1989 the rates for systems with 1 - 1,000 subscribers were 200 percent higher than those systems serving 50,000 and more subscribers⁴³. Even systems with 3,501 - 10,000 subscribers had rates 160

⁴¹In reality, certain smaller systems face rollbacks substantially higher than 10 percent. For example, a system which is more than 10 percent above benchmark as of September 30, 1992 will not only have its September 30, 1992 rates reduced by 10 percent, but will also lose any rate increases implemented subsequent to September 30, 1992. Assuming a system raised rates by 5 percent on January 1, 1993, its total rate rollback would be 15 percent, not 10 percent.

⁴²In addition to the benchmark formula, of which subscriber level is a factor, the Commission has published benchmark rate tables for systems with 50, 100, 250, 500, 750, 1,000, 1,500 and 10,000 subscribers.

⁴³Competition Report at Table 2H. Rates for under 1,000 subscriber systems were \$0.90 while 50,000 subscriber systems charged \$0.45.

percent higher⁴⁴. These rates, their differentials and trends are simply inconsistent with the Commission's benchmarks.

By comparison, the spread between benchmarks, for example, for systems with 1,000 and 10,000 subscribers providing 25 channels, of which 20 were satellite signals, the smaller system could only charge 0.6 percent more than the larger system⁴⁵.

While we leave the detailed statistical studies to other commenters and reply commenters, the disparity between the Commission's Competition Report and its benchmarks developed just over two years later strongly suggests that the benchmark calculations are skewed towards larger systems and systems which are affiliated with MSOs. Therefore extrapolating the relationships identified in the Competition Report, the Commission should eliminate all but the 10,000 subscriber table and adjust the benchmark rates by increasing each of the benchmark amounts on the 10,000 subscriber tables in accordance with the following schedule:

⁴⁴Excerpt of the Competition *Report* summarization of various rates is attached as Exhibit B.

These rates, their differentials and trends are simply inconsistent with the Commission's benchmarks.

⁴⁵The benchmark for the 10,000 subscriber plus system is .815, while the benchmark for a 1,000 subscriber system is .820.

<u>System Size</u>	<u>Addition to Benchmark</u>
1 - 1,000	84 percent ⁴⁶
1,001-3,500	31 percent ⁴⁷
3,501-10,000	14 percent ⁴⁸

Given that the *Competition Report* involved a survey of the rates and services of nearly 2,000 cable systems,⁴⁹ the benchmark sample was comprised from a survey mailed to systems serving 748 cable communities⁵⁰, and the wide variation in the results of the statistical analyses, it is apparent that one of the survey is fatally flawed.

D. Benchmark Rates Are Skewed By MSO Affiliated Systems

Another finding in the *Competition Report* was that rates were consistently lower for systems affiliated with an MSO than those of independent operators⁵¹. For example, in 1989 rates for independently owned systems were 20 percent higher than MSO owned systems⁵².

⁴⁶The *Competition Report* indicated a 1989 rate of \$0.49 for 10,000 plus subscriber systems and a rate of \$0.90 for systems with 1,000 and fewer subscribers, or a difference of 84 percent.

⁴⁷The *Competition Report* indicated a 1989 rate of \$0.49 for 10,000 plus subscriber systems and a rate of \$0.64 for systems with 1,001 - 3,500 subscribers, or a difference of 31 percent.

⁴⁸The *Competition Report* indicated a 1989 rate of \$0.49 for 10,000 plus subscriber systems and a rate of \$0.56 for systems with 3,501 - 10,000 subscribers, or a difference of 14 percent.

⁴⁹*Competition Report* at ¶ 12.

⁵⁰May 3, 1993 *Order*, Appendix E, ¶ 2.

⁵¹*Competition Report*, Table 3A, Appendix F, p.9.

⁵²The *Competition Report* reflects an average cost per channel in 1989 of \$0.54 for an MSO owned system and \$0.65 for an independent system.

Of the systems used to derive the Commission's benchmarks, approximately 83 percent⁵³ were affiliated with MSOs. Simply put, the benchmark sample is heavily skewed towards rates charged by MSOs, many of whom are large MSOs⁵⁴. Therefore, the benchmarks are not reflective of the rates charge by independent operators.

SCBA suggests that independent operators be permitted a 20 percent addition to the benchmarks, based on the Commission's own finding in the Competition Report.

E. **Operators With Below Benchmark Rates Should Be Permitted to Increase Rates to Benchmarks**

While in the aggregate many small operators find themselves charging at or above benchmark rates, when rates are computed on an individual system basis, some of the systems are above, while others are well below, benchmarks. Hence, many of these small operators, even those charging rates no higher than benchmark, are forced to roll rates back rather than readjust rates between systems.

While the SCBA is aware of the Commission's recent pronouncement on a more general, but related issue⁵⁵, SCBA respectfully requests that the Commission consider creating an exception for such small operators to adjust rates to benchmarks.

⁵³August 10, 1993 *Order* at p. 12.

⁵⁴Of the 383 systems used in the benchmark database, 155 or 40 percent were affiliated with one of the largest 25 MSOs.

⁵⁵ *First Order on Reconsideration, Second Report and Order and Third Notice of Proposed Rulemaking* In The Matter Of Implementation Of Sections Of The Cable Television Consumer Protection and Competition Act of 1992, Rate Regulation, MM Docket No. 92-266 (Released August 27, 1993) at Paragraph 15, in which the Commission, as a general rule, refused to provide operators with the consent to increase rates to benchmark levels.

F. The Benchmarks Should Be Adjusted For Fixed Headend Costs

All cable systems, large and small have significant capital invested in their headends. To a large extent, the range of capital investment in headends does not vary widely between systems.

Similarly, many operating costs are fixed as well. For example, basic headend operations, maintenance and utilities can be the same whether a headend serves 100 or 100,000 subscribers.

The benchmark database was heavily skewed towards systems serving large numbers of subscribers off of a single headend. In fact, the average number of subscribers per headend for the entire sample was 11,035⁵⁶. Since these systems had a much larger subscriber base over which to spread both the fixed capital and operating costs, their rates did not need to be as high as systems with smaller subscriber bases.

SCBA is gathering information regarding the average capital and operating costs of smaller system headends, and will supply it to the Commission in a supplemental filing along with a specific benchmark adjustment proposal. In the alternative, SCBA requests that the Commission accumulate such cost information for smaller systems and compute an appropriate benchmark adjustment for systems with fewer than 11,000 subscribers.

G. Benchmarks Should Be Increased For Lower Density Systems

Another key factor which impacts capital and operating expense is the number of homes passed by each mile of cable plant. Other commenters have previously articulated

⁵⁶The 4,392,056 subscribers served by the systems included in the database were connected to 398 headends, or an average of 11,035 subscribers per headend.

these concerns thoroughly to the Commission⁵⁷. Briefly, the average density of homes included in the Commission's database was 59 homes per mile.

Few smaller cable systems have density anywhere approaching this level. Smaller cable businesses typically serve more rural areas which were not built by the larger MSOs since the lower density of homes did not provide an adequate rate of return. It was not uncommon for larger MSOs to refuse to build plant below 30 homes per mile.

Many smaller operators have built down to 10 homes per mile or less. Without these entrepreneurs, many rural areas simply would not have access to cable programming.

The SCBA is gathering data to quantify the amount of additional costs associated with provision of service to lower density areas and will propose a specific benchmark adjustment in a supplemental filing. In the alternative, SCBA requests that the Commission accumulate such cost information for smaller systems and compute an appropriate benchmark adjustment for systems with fewer than 59 homes per mile on average.

V. CONCLUSION

While the SCBA supports the Commission in its efforts to resolve the small business definitional issues which are essential to ensure that implementation of the benchmark rate regulation scheme does not disparately burden small operators, such proceedings must be performed in conjunction with the Small Business Administration.

⁵⁷See, e.g., *Reply to Opposition to Petitions for Reconsideration*, filed by Televisa Communications, Inc. in MM Docket No. 92-266, July 29, 1993.

Two types of relief must be afforded to operators: (1) the procedural burdens of complying with rate regulation procedures must be reduced for small cable businesses as well as small systems; and (2) benchmark rates must be adjusted upward for a number of factors for systems with certain attributes (i.e., low density of homes, low number of subscribers per headend, etc.).

Furthermore, the significant disparity between the rates revealed by the Commission's 1990 Competition *Order* and its benchmark rate study need to be reconciled and corresponding increases made to the various benchmark rates.

Any possible method to reduce the administrative burdens associated with computing rates under the benchmark system, including the use of average cost information to compute equipment rates as suggested in this filing, should be given significant consideration by the Commission as cable operators are not the only parties to benefit from such reductions. Equally as important, such simplifications will significantly reduce the administrative costs of franchising authorities and the Commission itself, by making initial review of rates easier and reducing the potential areas of disagreement between cable operators and the regulators of cable rates.

Respectfully submitted,

**SMALL CABLE BUSINESS
ASSOCIATION**

By: 
Eric E. Breisach

**HOWARD & HOWARD
107 W. Michigan Ave., Suite 400
Kalamazoo, Michigan 49007**

**Attorneys for the Small Cable
Business Association**

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EXHIBIT A

Member List

Mr. David D. Kinley
SCBA
C/O Kinley Simpson Associates
5976 W. Las Positas Blvd.#202
Pleasanton, CA 94588

Page: 1
Report Date: 8/30/93
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Number of Contacts: 240

Company

ACI Mgt.
Aerial Communications, Inc.
Albee Cablevision
Alfred Cable Systems, Inc.
All Points Associates, Inc.
Alsea River Cable TV
American Pacific Company
American Phoenix Comm.
Annox Inc. **
Apollo CableVision, Inc.
Ashland Entertainment, Inc.
Atwood Cable Systems, Inc.
Authorized Communications
B & C Cablevision, Inc.
B. R. Cablevision Company
Baker Cable TV
Barrow Cable TV
Basco Electronic, Inc.
Bath CATV, Inc.
Beaver Valley Cable Company
Bellsie Communications, Inc. **
Belleville Cable TV **
Big Sandy Telecom
Big Sky Community TV, Inc.
Black Rock Cable
Bley Cable, Inc.
Bonduel Cable TV
Boulder Ridge Cable TV **
Bowling Cable TV
Buford Television, Inc.
Bye Cable, Inc.

City, State, Zipcode

Brentwood, TN 37027
Callettsburg, KY 41129-8938
North Branch, MI 48461
Alfred, NY 14802
Fall City, WA 98024
Waldport, OR 97384
Desert Center, CA 92239
Dallas, TX 75240
Atlanta, GA 30348
Cerritos, CA 90701
Broadus, MT 59317
Atwood, KS 67730
Gilberts, IL 60138
Wiggins, CO 80854
Benton Ridge, OH 45818
Baker, MT 59313
Barrow, AK 99723
Weston, WV 26452
Hot Springs, VA 24445
Rome, PA 18837
Coraopolis, PA 15108
Belleville, KS 66935
Simla, CO 80835
Bozeman, MT 59715
Bellingham, WA 98228
Beardstown, IL 62818
Bonduel, WI 54107
Pacific Palisades, CA 90272
Hyden, KY 41749
Tyler, TX 75711
Crosby, MN 56411

**Board Member

Member List

Mr. David D. Kinley
SCBA
C/O Kinley Simpson Associates
5978 W. Las Positas Blvd.#202
Pleasanton, CA 94588

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Company

C.E.R. Cablevision
C.P.S. Cablevision
Cable & Communications Corp.
Cable Comm. of Willsboro
Cable Services, Inc. **
Cable TV Services, Inc.
Cable Vision, LTD.
Cable World Magazine
Cableview
Cablevision Industries Inc.
Calvin Cable System, Inc.
Cannon Valley Cablevision, Inc.
Carlyss Cablevision
Cascade Cable Systems
Cascade Cablevision, Inc.
Catalina Cable TV, Co.
Catron Communications, Inc.
Cencom, Inc.
Cim. Tel. Cable, Inc.
Clear Cable TV, Inc. **
Clear Vu Cable, Inc.
Clinton Cable TV Co., Inc.
Clinton Cablevision Service, Inc.
Coast Cable Communications, Inc.
Coast Communications
Collinsville TV Cable
Colstrip Cable TV Company **
Communications Equity Associates
Community Antenna System
Community TV Company
Community TV Systems

City, State, Zipcode

Estherwood, LA 70534
Coalport, PA 16627
Circle, MT 59215
Willsboro, NY 12896
Jamestown, ND 58402
Goodland, IN 47948-0420
Gatesville, TX 76528
Denver, CO 80205
Harper, TX 78631
Myrtle Beach, SC 29525
Calvin, PA 16622
Bricelyn, MN 56014-0337
Sulphur, LA 70664-2447
The Dalles, OR 97058
Vaughn, WA 98394
Avalon, CA 90704
Hays, KS 67601
Jackson, NE 68743
Mannford, OK 74044
Bardstown, KY 40004
Summerville, GA 30704
Terre Haute, IN 47808
Clinton, AR 72031
Orange, CA 92665
Ocean Shores, WA 98569
Collinsville, AL 35961
Billings, MT 59104
Tampa, FL 33602
Spokane, WA 99204
Eljay, GA 30540
Columbus, OH 43215

**Board Member

Member List

Mr. David D. Kinley
SCBA
C/O Kinley Simpson Associates
5976 W. Las Positas Blvd.#202
Pleasanton, CA 94588

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Company

Comstar Cable TV, Inc.
Coosa Cable Co.
Country Cable TV
Country Cable, Inc.
Country Cablevision, Inc.
County Cable TV, Inc.
Cowboy Cable
Cross Cable Television, Inc.
Crow Cable TV
Curtis Cable TV Co., Inc.
D & D Cable Systems, Inc.
Dairyland Cable Systems
Data Video Systems, Inc.
Dean's Cablevision, Inc.
Deer River Telephone
DeMarce Dunn St. Croix
Dillingham Cablevision, Inc.
Douglas Cable Communications **
Due West Cablevision
Durand Cable Co., Inc.
Eldorado Cable TV, Inc.
Ellis Engineering & Construction
EQC Cable, Inc.
Falmont Cable
Farmington Cablevision
First Cable of Missouri
First Commonwealth Cablevision
Fl. Morgan Cable TV, Inc.
Gauthier Cablevision
Glimer Cable Television Co., Inc.
Glass Antenna Systems, Inc.

City, State, Zipcode

Beatrice, NE 68310
Pell City, AL 35125
Pleasant Gap, PA 16823
Canton, OH 44701
Burnsville, NC 28714
Spencer, NY 14883
Bastrop, TX 78602-1039
Wamer, OK 74469
Hardin, MT 59034
Curtis, NE 69025
Ste. Genevieve, MO 63670
Richland Center, WI 53581
Parkers Prairie, MN 56361
Lamoni, IA 50140
Deer River, MN 56636
Elmwood, WI 54740
Dillingham, AK 99576
Topska, KS 66809
Due West, SC 29639
Durand, WI 54736
Sante Fe, NM 87505
Riverton, KS 66770
Campbellsburg, IN 47108
Rochester, MN 55903
Farmington, MO 63640-0710
Moberly, MO 65270
Gloucester, VA 23061
Gulf Shores, AL 36547
Lac du Flambeau, WI 54538
Glimer, TX 75644
Greencastle, IN 46135

**Board Member

Member List

Mr. David D. Kinley
SCBA
C/O Kinley Simpson Associates
5978 W. Las Positas Blvd.#202
Pleasanton, CA 94588

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Company

Glide Cablevision
GPA Cable of VA, Inc. **
Grand Ridge Cable
Grand Ridge CATV
Grassroots Cable Systems, Inc.
Great Plains Cable **
Green River Cable TV, Inc.
Green Tree Cable TV, Inc.
Greene Cablevision Co., Inc
GWC Communications Co., L.P.
Hadland Communications, Inc.
Hancock Video, Inc.
Heartland Cable
Heartland Cable TV
Heartland Cable, Inc.
Heppner TV, Inc.
Hermosa Cablevision **
HFU TV
Higgins Lake Cable, Inc
Hill Country Communications
Hillcomm Comm. Company
Hilltop Communications, Inc.
Horizon Cable TV, Inc. **
Houston Cable
Images Cablevision, Inc.
Indevideo Co, Inc.
Interstate Cablevision
J & N Cable Systems
J & T Cable
JEM Cablevision
Julian Cablevision

City, State, Zipcode

Glide, OR 97443
Osprey, FL 34229
Grand Ridge, IL 61325
Grand Ridge, IL 61325
Exeter, NH 03833
Blain, NE 68008
Russel Springs, KY 42642
Louisa, KY 41230
Greene, NY 13778
Atlanta, GA 30338
Bayfield, WI 54814
Hancock, NY 13783-0478
Sebring, FL 33870
O'Fallon, MO 63388
Minonk, IL 61780
Heppner, OR 97836
Durango, CO 81301
Coleville, CA 96107
Iron Mountain, MI 49801
Lampasas, TX 76550
Lincoln, NE 68510
Germantown, NY 12528
Fairfax, CA 94978
Houston, MO 65483
Ochelata, OK 74051-0158
Phoenix, AZ 85079
Emerson, IA 51533
Goldendale, WA 98620
Rocky Ford, CO 81067
Jefferson, OH 44047
Scottsdale, AZ 85258

**Board Member

Member List

Mr. David D. Kinley
SCBA
C/O Kinley Simpson Associates
5976 W. Las Positas Blvd.#202
Pleasanton, CA 94588

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Company

Karban TV Systems, Inc.
Keystone Wilcox Cable TV, Inc.
Kohrt Communications
Kuhn Communications, Inc.
Lakesfield Cable TV
Lakewood Cable Company
Licking Cable, Inc.
Lincoln Cable TV
Lolita Vanderbilt Cable
Lost Hills Communications
Lovell Cable TV, Inc.
Luverne TV Cable Service, Inc.
M-Tek Systems, Inc.
Manhattan Cable TV Company
Matrix Cablevision, Inc.
McVay Communications
Merrimac Area Cable Co.
Mesilla Valley Cable TV
Meyerhoff Cable Systems, Inc.
Mid State Community TV
Mid-Atlantic Cable
Mid-Coast Cable Television
Mid-Hudson Cablevision
Mid-Kansas Cable Services
Midwest Video Electronics
Mike's TV, Inc.
Milestone Media Management
Millersburg TV Company
Modern Communications
Moultrie Telecommunications
Mountain Cablevision **

City, State, Zipcode

Rhineland, WI 54501
Ridgeway, PA 15853
Rochester, MN 55901
Walnut Bottom, PA 17206
Lakesfield, MN 56150-1023
Lakewood, PA 18439-0258
Licking, MO 65542-0287
Lincoln, MT 58839
La Ward, TX 77070
Calabases, CA 91302
Lovell, WY 82431
Luverne, AL 36049
Redwood Flats, MN 56283
Manhattan, IL 60442
Saratoga, CA 95070
Coalinga, CA 93210
Merrimac, WI 53581
Las Vegas, NV 82120
Mi-Wuk Village, CA 95348
Aurora, NE 68818
Washington, DC 20016
El Campo, TX 77437
Catskill, NY 12414
Moundridge, KS 67107
Makaha, HI 96729-1829
Morton, WA 98356
St. Petersburg, FL 33702
Millersburg, PA 17061
Rock Rapids, IA 51246
Lovington, IL 61937-0350
New York, NY 10128

**Board Member

Member List

Mr. David D. Kinley
SCBA
C/O Kinley Simpson Associates
5976 W. Las Positas Blvd.#202
Pleasanton, CA 94588

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Company

Mountain Zone TV
Mountaineer Cablevision, Inc.
Mt. Vernon Cablevision
Multi-Cablevision Co. of LW
Multimedia Development Corp.
Murray Cable TV, Inc.
MYVOCOM
NCTC, Inc.
Nelson County Cablevision Corp.
Nelsonville TV Cable, Inc.
North Country Cable
North Star Television Co.
North Texas Communications Co.
North Yellowstone Cable TV
Northern Cable Co., Inc
Northwest Signal
Olmstead Cable Company
Oswayo Valley TV Cable
Otec Communications Company
Our Cable Systems, Inc.
Pacific Coast Cable Co., L.P.
Pacific Sun Cable Partners
Panora Cooperative Cablevision...
Paradise Cable Unlimited, Inc.
Philipsburg Cable TV
Pico Products, Inc.
Pine Tree Cablevision
Pioneer Cable, Inc. **
Plantation Cablevision, Inc.
Quinter Cable Co., Inc.
Red River Cable TV

**Board Member

City, State, Zipcode

Alpine, TX 79830
Mullens, WV 25882
Mt. Vernon, OH 43050
Hamburg, MI 48139
Albuquerque, NM 87123
Paola, KS 66071
Manila, UT 84046
Lenexa, KS 66216
Lovingslon, VA 22949
Nelsonville, OH 45784
Enosburg Falls, VT 05450
Knoxville, TN 37950-1908
Muenster, TX 76252
Gardiner, MT 59030
Ontonagon, MI 49953
Bellevue, WA 98058
Cleveland, OH 44114
Shinglehouse, PA 16748
Ottoville, OH 45876
Austin, TX 78737
Ione, CA 95640
Pleasanton, CA 94588
Panora, IA 50216
Philipsburg, CO 80469
Philipsburg, MT 59858
E. Syracuse, NY 13057
Wayne, PA 19087
Monument, CO 80132
Eatonton, GA 31024
Quinter, KS 67752
Coushatta, LA 71019-0674

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EXHIBIT B

Table 2G

Average number of channels offered by system subscriber count - composite of Tables 2A through 2E

<u>Date</u>	<u>1-1,000</u>	<u>1,001-3,500</u>	<u>3,501-10,000</u>	<u>10,001-50,000</u>	<u>50,000+</u>
12/31/84	11	14	18	22	26
12/31/85	12	15	19	23	28
11/30/86	12	17	21	25	31
12/31/87	14	19	24	28	34
12/31/88	15	21	27	31	36
12/31/89	16	24	28	33	37

Table 2H

Average cost per channel to the subscriber by system subscriber count - composite of Tables 2A through 2E

<u>Date</u>	<u>1-1,000</u>	<u>1,001-3,500</u>	<u>3,501-10,000</u>	<u>10,001-50,000</u>	<u>50,000+</u>
12/31/84	\$0.91	\$0.68	\$0.52	\$0.44	\$0.39
12/31/85	\$0.86	\$0.67	\$0.53	\$0.45	\$0.39
11/30/86	\$0.92	\$0.64	\$0.52	\$0.46	\$0.40
12/31/87	\$0.86	\$0.66	\$0.54	\$0.48	\$0.41
12/31/88	\$0.89	\$0.66	\$0.53	\$0.48	\$0.43
12/31/89	\$0.90	\$0.64	\$0.56	\$0.49	\$0.45